



Department of Administration
Budget and Policy Division

Tom Barrett
Mayor

Marianne Walsh
Director

Joseph J. Czarnezki
Budget and Management Director

May 5, 2004

MEMORANDUM

TO: Mayor Tom Barrett

FROM: Patrick Hartmann, Budget Analyst - Lead

SUBJECT: Traser Yard Facilities Relocation Working Group Recommendation

In January of 2004, Harley-Davidson Motor Company announced plans to develop a site at 6th and Canal Streets in the City of Milwaukee for a Harley Davidson Museum, retail area, and restaurant, with potential for future development of museum expansion, archival storage, and commercial office space for Harley Davidson Corporation. The proposed site, located at the east end of the Menomonee Valley, includes 10.2 acres currently occupied by the Department of Public Works (DPW) Traser Yard facilities which house operations for DPW-Infrastructure Street Services, Sewer, and DPW-Building Services.

Prior Plans to Relocate Traser Yard

Prior to the announcement by Harley-Davidson, the City of Milwaukee had been planning to relocate the facilities at Traser Yard in the interest of making that location available for private development. This was intended as part of a coordinated plan outlined by the city, in cooperation with the Menomonee Valley Partners and the Menomonee Valley Business Association, to promote economic development and job creation in the Menomonee Valley. In 2003, several scenarios and locations were examined for relocating the Traser Yard facilities and operations. In November of 2003, the Common Council approved \$2.5 million in the 2004 city budget for site selection and preparation costs associated with relocating the Traser Yard facilities. An additional \$11.3 million was included in the Mayor's 2004-2009 Capital Plan for completion of the Traser Yard facilities relocation in 2005.

The total \$13.8 million included in the 2004-2009 capital plan for relocation of the Traser Yard facilities was based upon an architectural consultant's cost estimates for relocation to the vacant WE Energies site located at 76th and Main Streets. This location was seen as an affordable option for relocation because of the cost savings associated with the use of currently existing facilities at the site. However, due to concerns of the ability of this location to accommodate the relocation of additional DPW facilities currently located in the Menomonee Valley, DPW offered an alternative location at South Marina Drive, where the Kinnickinnic River flows into the inner harbor of the Port of Milwaukee. While the Marina Drive property is controlled by the City of Milwaukee Harbor Commission and could be transferred to the city at no cost, the site contains no improvements and would require extensive new construction to accommodate the Traser Yard facilities. DPW's original cost estimate for relocation of the Traser Yard facilities at this location was approximately \$20 million. This amount, when considered

in combination with an estimated \$7 million in city funding called for in the proposal by Harley-Davidson to prepare the Traser Yard site for development, proved potentially cost prohibitive for the city. In the interest of ensuring the success of the Harley-Davidson proposal, an interdepartmental working group consisting of department heads and managers from DPW, DCD, the Comptrollers Office, the Mayor's Office, and the Budget Office, was formed to identify the best possible site for the relocation of the Traser Yard facilities.

Traser Yard Relocation Working Group

The working group identified eight possible relocation sites and analyzed each site based upon selection criteria. These criteria included site characteristics that were either required, or desirable for the relocation of the Traser Yard facilities. Examples of these criteria included location, with a preference for sites that are located centrally in the city; square footage to accommodate no less than 155,000 square foot of building and facility space, plus adequate parking for employees; proximity to free-way access; industrial character of surrounding area; availability of utilities; need for demolition of existing structures; and remediation requirements due to contamination.

After analysis and discussion of the possible relocation sites, three sites were identified as the most favorable:

1. A vacant WE Energies facilities at 76th and Main Streets;
2. Undeveloped lots at South Marina Drive; and
3. Vacant manufacturing facilities located in the industrial corridor on Capital Drive at 35th Street, also known as the Tower Automotive site.

Relocate Water Works Distribution with Traser Yard

Before a more detailed cost comparison of the three best potential relocation sites was performed, DPW offered an alternative scenario that reduced the cost of relocating the Traser Yard facilities. In 1999, the Common Council approved \$9 million in capital funding for the consolidation of the Water Works Department's North and South distribution facilities (located on Cameron and Lincoln Avenues, respectively). Because of difficulties identifying an ideal site for relocation, the funding authority for this project lapsed in 2002. However, The Common Council determined that the project would still benefit the city and approved \$8 million in the 2004 Budget, for this purpose.

The Water Works Department's desire to consolidate its distribution facilities is based on the anticipated savings that will result through consolidation of staff and the implementation of competitive strategies afforded by a new facility. Water Works anticipates saving approximately \$1 million annually in salaries and benefits due to the elimination of 15 positions through attrition. Additionally, \$100,000 in reduced annual operating costs and \$200,000 in reduced annual equipment costs are anticipated due to increased efficiencies in office, shop, and inventory support functions resulting from the consolidation of the two facilities. Water Works also anticipates one-time capital cost avoidance of approximately \$6 million for repair needs at the current distribution facilities. Given these savings, the consolidation project would pay for itself in three years.

Recognizing that the street and sewer operations currently performed out of the Traser Yard location are similar to the operations performed out of the Water Works distribution yards, DPW realized that coordinating the relocation of the Traser Yard facilities with the consolidation of the Water Works distribution facilities would provide several important benefits to both projects: 1) Due to the

operational similarities of both facilities, costs savings could be realized by consolidating the ordering, storing, and maintaining of equipment and materials and by sharing overhead services; 2) Constructing both facilities at the same time and in the same location, would allow for lower construction costs than if they were built separately; and 3) By coordinating with the time sensitive Traser Yard relocation, additional impetus will be provided to ensure that the Water Works consolidation project will occur in a timely manner.

Traser Yard Estimated Relocation Costs Reduced

Including the construction of the consolidated Water Works distribution facility with the construction of the relocated Traser Yard facilities, DPW was able to reduce its original estimated cost of relocating Traser Yard facilities to the Marina Drive site from \$20 million to \$16.2 million. Using this approach, DPW then identified the cost of locating both the Traser Yard facilities and the consolidated Water Works facility at the remaining two sites: 76th and Main Streets site and the Tower Automotive site.

76th and Main (WE Energies Site)

Consisting of approximately 17.9 acres and 160,000 square feet of building space including office, garage, and storage, this former Wisconsin Electric district operations facility would have enough acreage to accommodate the 10.0 acres required for the Traser Yard, and the 6.2 acres required by the Water Works facility. However, new construction would be necessary to accommodate the 155,000 and 100,000 square foot facility space needs of the Traser Yard and Water Works facilities, respectively.

DPW's relocation cost estimate for this site is \$13.6 million for Traser Yard facilities and \$7.6 million for Water Works distribution facilities, totaling \$21.2 million. While this cost fits within the city's 2004-2009 capital plan, the working group had several concerns with the 76th and Main site:

- 3.25 acres of this site is currently owned and occupied by a private business other than WE Energies. If this area is not utilized for the relocation project, outside storage capacity of the 76th and Main site would be limited, reducing the desirability of the site. However, acquisition and site preparation of the 3.25 acre property would delay project completion and increase project cost.
- Milwaukee Public Schools has been working with the 76th and Main site realtor, WISPARK, to locate several MPS maintenance facilities in concert with the purchase, by WISPARK, of the MPS facility at 11th and Highland, which abuts the WISPARK development "Pabst City". WISPARK may be hesitant to sell the property to the City until its negotiations with MPS have been finalized.
- Even if the full 17.9 acres becomes available, this does not allow for future relocation and consolidation at one common site of other DPW-facilities located in the Menomonee Valley, such as the Electrical Shop at 14th and Canal, and the Central Repair Garage at 16th and Canal.

South Marina Drive and East Stewart Street

Located where the Kinnickinnic River flows into the inner harbor of the Port of Milwaukee, this vacant land consists of three parcels owned by the City of Milwaukee and administered by the City of Milwaukee Harbor Commission. The total land area equals 27.1 acres and would accommodate the acreage needs of both the Traser Yard facilities and the Water Works distribution facilities, with additional space for future relocation of the DPW-Electrical Shop. The site, however, is devoid of any improvements and lacks utility laterals.

DPW's estimated construction costs for relocating Traser Yard facilities and Water Works distribution facilities to the Marina Drive site are approximately \$2 million more than the 76th and Main site, with \$14.4 million estimated for the Traser Yard facilities and \$8.6 million for Water Works facilities, totaling \$23 million. However, the working group had additional concerns with this site:

- Preliminary results of ground tests reveal that specialized foundation systems will be necessary including piles and grade beams, due to the soil instability as deep as 70 feet. It is estimated that the specialized foundation requirements could cost an additional \$3 million, raising the cost of this alternative site to \$26 million.
- Since this property is located on or near water front of the Kinnickinnic River and the inner harbor of the Port of Milwaukee, it is likely that this land has potential for future private development. The city would benefit from not restricting the development of potentially prime real-estate.

Tower Automotive Site

This 148 acre site contains 3.2 million square feet of manufacturing buildings, of which less than one million is currently occupied. This site was formally occupied by A.O. Smith Corporation, an automotive products company which, at one time, employed more than 5,000 persons at the site. Tower Automotive Inc. bought the A.O. Smith Corporation in 1997, and since then, has initiated a series of layoffs and line closings and has vacated the majority of the facilities at the site. The extensive land and facility space available at this site would allow for the Traser Yard facilities relocation, Water Works distribution yard relocation, and future relocation of other DPW facilities located in the Menomonee Valley.

DPW's cost estimates for relocation to this site include \$14.1 million for the Traser Yard facilities and \$9.9 million for Water Works distribution facilities, for a total of \$24.0 million. **Relocating the Traser Yard and Water Works facilities to the Tower Automotive Site was identified as the most desirable of the three prime alternative sites for the following primary reasons:**

- Because the Tower Automotive site can be developed privately prior to lease or sale to the city, decreasing the time required for development due to avoidance of the bid preparation and bid selection process required for city developed projects, it provides the best chance of meeting the Harley-Davidson proposed museum project timeline.
- Reducing vacancy and maintaining activity at a site as large as the Tower Automotive site will curb deterioration of the site. This will help maintain it as attractive for private development, without greatly limiting the remaining 100 plus acres available for development.
- The Tower Automotive Site has adequate acreage for the eventual relocation of additional DPW facilities out of the Menomonee Valley in coordination with the city's Menomonee Valley Development Plan. This allows for future consolidation of facilities and operations, reducing future costs of City services.
- The business community surrounding 35th and Capital will benefit from the maintenance of consumer traffic provided by city employees.

Recommendation

The Traser Yard Relocation Working group recommends the combined relocation of the DPW Traser Yard facilities with the DPW Water Works distribution facilities to the Tower Automotive Site, as the most beneficial option for making the Traser Yard site at 6th and Canal Streets available for the Harley-Davidson proposed museum development project. DPW estimates that the Traser Yard relocation will

cost \$14.1 million, or \$0.3 million more than the \$2.5 million included in the city's 2004 capital budget plus the \$11.3 million included in the city's 2004-2005 capital plan for Traser Yard relocation. Also, according to DPW estimates, the Water Works facility will cost \$9.9 million, or \$1.9 million more than included in the city's 2004 capital budget. This results in a total \$2.2 million of previously un-scheduled capital funding needs for the 2005 Budget.

However, preliminary analysis performed by the Department of Administration – Budget and Policy Division suggest that cost savings and cost avoidance resulting from the relocation project will more than offset the relocation project costs. Operational savings resulting from consolidating the Water Works distribution facilities are estimated at \$1.3 million annually. Operational savings resulting from a new Traser Yard facility are estimated at \$30,000 annually. Also, a total of \$8.9 million in current facility repair needs at the Traser Yard and the Water Works distribution facilities will be avoided by constructing new facilities. A present value analysis of these savings over 25 years shows that moving Water Works distribution and Traser Yard operations to newly constructed facilities will cost \$8.8 million less than maintaining operations at the current locations. Additionally, co-locating the Water Works distribution and Traser Yard facilities at the Tower Automotive Site is anticipated to generate an additional \$4.6 million in savings over 25 years due to consolidation of facility and operational functions (See Attachment I).

Lastly, it is important to note that, in addition to the savings generated by relocating the Water Works and Traser Yard, there will be a net benefit to the city from the construction of the Harley Davidson Museum at the current Traser Yard site. Over the same 25 year period, it is estimated that the present value net benefit to the city will be approximately \$1 million. This includes the additional tax revenue the city will receive net of all project costs, including debt service. Increased employment and other property development facilitated by the Harley Davidson museum project are excluded from the analysis. Attachment I summarizes the net benefit for phases I through III of the museum project.

Questions regarding Traser Yard Relocation Working group's recommendation and estimates of cost may be directed to Joe Czarnecki, Budget Director of the City of Milwaukee.

Attachments

PJH:

**25 YEAR ESTIMATED PRESENT VALUE OF COST
OF NEW TRASER YARD AND WATER WORKS DISTRIBUTION FACILITIES**

	Water Works Distribution Yard	DPW Traser Yard	Total	Co-Locate at Tower Auto.
Maintain Current Facility				
O&M	\$ 359,006,510	\$ 653,138,711	\$ 1,012,145,221	\$ 1,012,145,221
Capital	5,885,237	5,131,245	11,016,482	11,016,482
Total	\$ 364,891,747	\$ 658,269,957	\$ 1,023,161,704	\$ 1,023,161,704
Build New Facility				
O&M	\$ 336,011,182	\$ 652,557,701	\$ 988,568,883	\$ 983,934,911
Capital	9,437,208	16,319,338	25,756,545	25,756,545
Total	\$ 345,448,390	\$ 668,877,039	\$ 1,014,325,429	\$ 1,009,691,456
Net Savings of New Facility				
O&M	\$ 22,995,328	\$ 581,010	\$ 23,576,338	\$ 28,210,311
Capital	(3,551,971)	(11,188,092)	(14,740,063)	(14,740,063)
Total	\$ 19,443,357	\$ (10,607,082)	\$ 8,836,275	\$ 13,470,248

DOA-Budget, PJH: 5/04/04

**25 YEAR ESTIMATED PRESENT VALUE OF COST/BENEFIT
OF MENOMONEE VALLEY EAST PROJECT - HARLEY DAVIDSON**

	PHASE I	PHASES I & II	PHASES I, II & III
Total Cost with Debt Service	\$ (4,802,814)	\$ (5,111,650)	\$ (6,392,076)
Total Revenue - 25 Years	5,824,277	5,883,683	7,536,966
Net Benefit (Cost)	\$ 1,021,463	\$ 772,033	\$ 1,144,890

DOA-Budget, CDK: 4/19/04

Traser Yard Relocation Project Team Relocation Site Finalists - Selection Criteria			
Selection Criteria	S. Marina Dr./E. Stewart St. City Owned	76th/Main St. We Energies	35th/Capital Tower Automotive
Centrally Located	East Central	West Central	North Central
Near Freeway Access	Yes	Yes	Yes
Near Public Transit	Yes	Yes	Yes
Zoned Industrial	Yes	Yes	Yes
Industrial Character of Surrounding Area	Industrial	Mixed use-residential	Mixed use-residential
Best Potential Use of Site	New Industrial Use. Eliminates Potential for Private Development of River/Water-Front Property	Continue Industrial Use.	Continue Industrial Use. Take Lesser Portion of Property Off Tax Roll. Redevelopment Catalyst
Site Size	27.1	17.9	20+
Building Space (Sq. Ft.)	255,000 New Construction.	160,000 Retrofit. 95,000 New	255,000 New Construction
Space for Future Consolidation of City Facilities	Yes-6 acres	Unlikely	Yes-10 or more acres
Adequate Available Parking	Yes-To be Built	Yes	Yes
Meets Harley-Davidson Proposed Timeline(Jan-2006)	Unlikely	Unlikely	Possibly
<u>Estimated Acquisition and Development Cost (millions)</u>			
Traser Yard Facilities	\$ 16.2	\$ 13.6	\$ 14.1
Water Works Distribution	\$ 9.8	\$ 7.6	\$ 9.9
Total	\$ 26.0	\$ 21.2	\$ 24.0